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SUBJECT: KAZAKHSTAN TAKES FURTHER STEPS TO PROTECT INVESTORS
THROUGH NEW LEGISLATION

11. SUMMARY: On July 14, President Nazarbayev signed legislation that will toughen and improve general reporting requirements for joint stock companies (JSCs) as well as certain business transactions of JSCs. The new provisions will also require disclosure of potential conflicts of interest by managers, officers, and members of corporate boards of directors. These legislative changes further incorporate international best practices related to corporate responsibility and governance, and should lead to a more attractive business environment for investors. END SUMMARY.

12. On July 14, President Nazarbayev signed legislation, "On Payments and Remittances, Accounting Reports, and Financial Statements for Financial Institutions and the National Bank," which was developed through assistance provided by the USAID Business Environment Improvement Project to the Agency for the Regulation and Supervision of Financial Markets and Financial Organizations (FSA). This legislation amended the law "On Joint Stock Companies" and is designed to improve the protection of investors through increasing the disclosure requirements for businesses as well as their key executives. Since JSCs were not previously required to make annual reports publicly available, it was difficult for shareholders, investors, and the public to obtain essential information on the health of businesses, or to ensure appropriate ethical behavior of corporate officers and adherence of officers to their fiduciary duties. With the new legislation, members of corporate boards of directors must disclose annual reports of their companies to their shareholders as well as to the public, and include any transactions in which members of the board or key officers have a personal financial interest.

13. These new reporting requirements will increase transparency and should help attract foreign and domestic investment in Kazakhstan by providing additional information to potential shareholders. This additional information will allow investors to better assess the risks of investment in a company. The new legislation will also permit shareholders to take legal action if a transaction in which a member of a board of directors, an officer, or key manager has a personal financial interest results in harm to a company. These legal improvements are also an important step toward protecting minority shareholders, who previously had few opportunities to

obtain information about company operations.

¶4. Previous amendments to the law "On Accounting and Financial Reporting" required JSCs to prepare accounts and financial reports in accordance with International Financial Reporting Standards, of which Standard 24, "Related Party Disclosures," required companies to report on transactions in which directors or key managers have a personal financial interest. With the July 14 amendments, these annual reports and disclosures will become publicly accessible information. These requirements conform to international best practices for corporate governance and bring Kazakhstan's business environment into greater harmony with international standards investors have come to expect in attractive markets.

¶5. Moreover, the change in reporting requirements is expected to improve Kazakhstan's rating in the World Bank Doing Business Report's "Protecting Investors" indicator, by improving the underlying "disclosures in published periodic filings" measurement from its current rating of zero to as high as 2. This could potentially improve Kazakhstan's overall "Protecting Investors" country rank from 53rd to 24th (assuming all other variables in next year's report stay the same). While these reforms were adopted after the June 1, 2009, cut-off for the Doing Business 2010 report, they will be taken into account in Doing Business 2011.

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